

charge to customers whose business is sought by the reseller. Thus, the business success of a reseller is significantly tied to the pricing policies established by the larger transmission facilities-based carriers. There can be no assurance that favorable pricing policies will be continued by those larger transmission facilities-based carriers.

United States. In the U.S., ACC is authorized to originate interstate and international long distance services nationwide and to originate intrastate long distance service in 48 states (although it currently derives most of its U.S. revenues principally from calls originated in New York and Massachusetts). ACC competes for customers, transmission facilities and capital resources with numerous long distance telecommunications carriers and/or resellers, some of which are substantially larger, have substantially greater financial, technical and marketing resources, and own or lease larger transmission systems than ACC. AT&T is the largest supplier of long distance services in the U.S. inter-LATA market. ACC also competes within its U.S. call origination areas with other national long distance telephone carriers, such as MCI, Sprint and regional companies which resell transmission services. RBOCs from outside the NYNEX/Bell Atlantic region, including SBC Communications, have, under the authority contained in the 1996 Act, begun to offer long distance services in the NYNEX/Bell Atlantic region. In the intra-LATA market, ACC also competes with the local exchange carriers servicing those areas. In its local service areas in New York State and Massachusetts, ACC presently competes or in the future will compete with NYNEX/Bell Atlantic, Frontier Corp., AT&T, Citizens Telephone Co. and WorldCom and with cellular and other wireless carriers. These local exchange carriers all have long-standing relationships with their customers and have financial, personnel and technical resources substantially greater than those of ACC. Furthermore, joint ventures such as those between MCI and Microsoft Corporation ("Microsoft"), under which Microsoft will promote MCI's services, the joint venture among Sprint, Deutsche Telekom AG and France Telecom, called Global One, the recently announced merger of WorldCom and MCI, and other strategic alliances could increase competitive pressures upon ACC. The recent merger between Nynex Corp. and Bell Atlantic is likely to strengthen the financial resources of the new, combined company, and its integrated networks may enhance its ability to offer long distance services in the combined NYNEX/Bell Atlantic region.

In addition to these competitive factors, recent and pending deregulation in each of ACC's markets may encourage new entrants. For example, as a result of the 1996 Act, RBOCs are allowed to enter the long distance market immediately in "out of region" states, and in the states where the RBOC is an incumbent LEC upon a showing that certain conditions related to competition have been met. AT&T, MCI and other long distance carriers, utilities and cable television companies are allowed to enter the local telecommunications market. In addition, the FCC has, on several occasions since 1984, approved or required price reductions by AT&T and, in 1995 and 1996, the FCC reclassified AT&T as a "non-dominant" carrier for domestic and international long distance services, which substantially reduces the regulatory constraints on AT&T. In the recently-completed World Trade Organization talks, the U.S. committed to allowing foreign carriers heretofore prohibited from competing in U.S. markets, to enter the U.S. local, long distance, and international markets, and the FCC has amended its rules, effective February 1998, to implement these commitments, allowing virtually open entry to the U.S. market by all entities from WTO member countries. The WTO accord will likely increase the level of competition in the U.S. local, long distance, and international markets. ACC believes that the principal competitive factors affecting its market share in the U.S. are pricing, customer service and variety of services. By offering high quality telecommunications services at competitive prices and by offering a portfolio of value-added services including customized billing packages, call management and call reporting services, together with personalized customer service and support, ACC believes that it competes effectively with other local and long distance telephone carriers and resellers in its service areas. ACC's ability to continue to compete effectively will depend on its continued ability to maintain high quality, market-driven services at prices generally below those charged by its competitors.

Canada. In Canada, ACC competes with facilities-based carriers, other resellers and rebillers. ACC's principal transmission facilities-based competitors are the Stentor group of companies, in particular, Bell Canada, the dominant suppliers of long distance services in Canada, AT&T Canada, which provides certain facilities-based and long distance services to business and residential customers, and Sprint Canada and fONOROLA Inc..

which provide certain transmission facilities-based services and also act as reseller of telecommunications services. ACC also competes against London Telecom, a reseller of telecommunications services. ACC believes that, for some of its customers and potential customers, it has a competitive advantage over other Canadian resellers as a result of its operations in the U.S. and the U.K. In particular, the trans-Atlantic link that it established in June 1993 between the U.K. and Canada allows ACC Canada to sell traffic to the U.K. with a significantly lower cost structure than many other resellers.

United Kingdom. ACC U.K. currently holds a National PTO License and an International Facilities License and competes with facilities-based carriers and other resellers. ACC's principal competitors in the U.K. are British Telecom, the dominant supplier of telecommunications services in the U.K., and CWC. ACC also faces competition from other operators such as Energis and WorldCom, and from resellers including Esprit and Sprint. ACC believes the services of ACC U.K. are competitive, in terms of price and quality, with the service offerings of its U.K. competitors primarily because of its advanced network-related hardware and software systems and the network configuration and traffic management expertise employed by it in the U.K.

Acquisitions, Investments and Strategic Alliances

As ACC expands its service offerings, geographic focus and its network, ACC anticipates that it will seek to acquire assets and businesses of, make investments in or enter into strategic alliances with, companies providing services complementary to ACC's existing business. ACC believes that, as the global telecommunications marketplace becomes increasingly competitive, expands and matures, such transactions will be important in maintaining a competitive position in the industry.

ACC's ability to effect acquisitions and strategic alliances and make investments may be dependent upon its ability to obtain additional financing and, to the extent applicable, consents from the holders of debt and preferred stock of ACC. If ACC were to proceed with one or more significant strategic alliances, acquisitions or investments in which the consideration consists of cash, a substantial portion of ACC's available cash could be used to consummate the acquisitions or investments. If ACC were to consummate one or more significant strategic alliances, acquisitions or investments in which the consideration consists of stock, shareholders of ACC could suffer a significant dilution of their interests in ACC.

Many business acquisitions must be accounted for as purchases. Most of the businesses that might become attractive acquisition candidates for ACC are likely to have significant goodwill and intangible assets, and the acquisitions of these businesses, if accounted for as a purchase, would typically result in substantial amortization charges to ACC. In the event ACC consummates additional acquisitions in the future that must be accounted for as purchases, such acquisitions would likely increase ACC's amortization expenses. In connection with acquisitions, investments or strategic alliances, ACC could incur substantial expenses, including the fees of financial advisors, attorneys and accountants, the expenses of integrating the business of the acquired company or the strategic alliance with ACC's business and any expenses associated with registering shares of ACC's capital stock, if such shares are issued. The financial impact of such acquisitions, investments or strategic alliances could have a material adverse effect on ACC's business, financial condition and results of operations and could cause substantial fluctuations in ACC's quarterly and yearly operating results.

The Merger Agreement contains restrictions on the conduct of ACC's business prior to the consummation of the Merger which are likely to affect ACC's pursuit of its strategies.

Employees

As of December 31, 1997, ACC had 1,268 full-time employees worldwide. Of this total, 384 employees were in the U.S., 482 were in Canada, 369 were in the U.K. and 33 were in Germany. ACC has never experienced a work stoppage and its employees are not represented by a labor union or covered by a collective bargaining agreement. ACC considers its employee relations to be good.

Properties

ACC's principal executive offices are located at 400 West Avenue, Rochester, New York in corporate office space leased through June 2004. It also leases office space for its Canadian headquarters in Toronto, Canada, as well as office space at various other locations. For additional information regarding these leases, see Notes 7 and 9 to ACC's Consolidated Financial Statements included herein.

ACC U.K.'s headquarters are located at Adelaide House in Chiswick, London. ACC U.K. entered into an Agreement for Lease for such location in October 1997. The term is for approximately six years through March 2004. The lease for the current headquarters will also continue until September 1998.

ACC has sixteen switching centers worldwide. ACC's switching equipment for the Rochester origination area is located at its headquarters at 400 West Avenue, Rochester, New York with additional switching equipment located in the U.S. in Albany, Buffalo, New York City and Syracuse, New York and Boston and Springfield, Massachusetts; in Canada in Toronto, Ontario, Montreal, Quebec, and Vancouver, British Columbia; and in London, Bristol and Manchester, England; and in Dusseldorf, Germany, all of which sites are leased. Branch sales offices are leased by ACC at various locations in the northeastern U.S., Canada and the U.K. ACC also leases equipment and space located at various sites in its service areas.

ACC's financing arrangements are secured by substantially all of ACC's assets. ACC's secured lender would be entitled to foreclose upon those assets and to be repaid from the proceeds of the liquidation of those assets in the event of a default under ACC's financing arrangements.

Legal Proceedings

ACC is a party, in the ordinary course of business, to litigation regarding services rendered, contract claims and other miscellaneous causes of action arising from its business. Management of ACC does not consider that any such matters will materially adversely affect ACC's business, results of operations or financial condition.

SECURITY OWNERSHIP OF MANAGEMENT AND PRINCIPAL STOCKHOLDERS OF ACC

The following table sets forth, as of March 18, 1998, the number and percentage of outstanding shares of ACC Stock beneficially owned by: (i) each director of ACC; (ii) each of the persons comprising the office of the Chief Executive Officer of ACC and the other four most highly compensated executive officers of ACC; (iii) each person or group known to ACC to be the beneficial owner of more than 5% of the outstanding shares of ACC Stock; and (iv) all directors and executive officers of ACC as a group. ACC believes that each individual in this group has sole investment and voting power with respect to his or her shares subject to community property laws where applicable and except as otherwise noted:

Name of Beneficial Owner or Identity of Group	Shares Beneficially Owned	
	Number	Percentage
Christopher Bantoft	46,100(1)	*
Michael R. Daley	141,241(2)	*
Steve M. Dubnik	109,475(3)	*
Richard T. Aab	785,872(4)	4.5
Hugh F. Bennett	18,300(5)	*
Arunas A. Chesonis	238,234(6)	1.3
Willard Z. Estey	15,000(7)	*
Leslie D. Shroyer	2,000(8)	*
Daniel D. Tessoni	30,000(9)	*
Robert M. Van Degna	18,000(10)	*
Mae H. Squier-Dow	79,490(11)	*
Kevin S. Dickens	11,250(12)	*
John J. Zimmer	38,130(13)	*
The Equitable Companies Incorporated and other entities as a group	902,300(14)	5.2
All directors and executive officers as a group (13 persons, including those persons named above other than Richard T. Aab and the Equitable Companies)	754,996(1)(2) (3) (5)(6) (7)(8) (9)(10) (11)(12) (13)(15)	4.2

* Indicates less than 1% of ACC's issued and outstanding shares.

- (1) Includes options to purchase 46,100 shares that are or will become exercisable by Mr. Bantoft within the next 60 days. Does not include 31,175 shares issuable upon the exercise of options that are not deemed to be presently exercisable, nor stock incentive rights with respect to 15,000 shares granted pursuant to ACC's Long-Term Incentive Plan.
- (2) Includes options to purchase 13,662 shares that are or will become exercisable by Mr. Daley within the next 60 days. Does not include 27,238 shares issuable upon the exercise of options that are not deemed to be presently exercisable.
- (3) Includes options to purchase 45,897 shares that are or will become exercisable by Mr. Dubnik within the next 60 days. Does not include 35,225 shares issuable upon the exercise of options that are not deemed to be presently exercisable, nor stock incentive rights with respect to 15,000 shares granted pursuant to ACC's Long-Term Incentive Plan.
- (4) Mr. Aab's address is 29 Woodstone Rise, Pittsford, New York 14534. The foregoing information was reported in a Schedule 13G (Amendment No. 10) that was filed with the Commission in January 1998, a copy of which was received by ACC.
- (5) Mr. Bennett and his spouse share voting and investment power with respect to 400 of the shares. Includes options to purchase 15,000 shares under the Non-Employee Directors' Stock Option Plan that are presently exercisable. Does not include an option to purchase 7,500 shares granted under such Plan that is not deemed to be presently exercisable.
- (6) Includes 16,792 shares owned by Mr. Chesonis's spouse and options to purchase 126,647 shares that are or will become exercisable by Mr. Chesonis or his spouse within the next 60 days. Does not include 32,477 shares issuable upon the exercise of options that are not deemed to be presently exercisable by Mr. Chesonis or his spouse.

- (7) Includes options to purchase 15,000 shares under the Non-Employee Directors' Stock Option Plan that are presently exercisable. Does not include an option to purchase 7,500 shares granted under such Plan that is not deemed to be presently exercisable.
- (8) Does not include an option to purchase 7,500 shares under the Non-Employee Directors' Stock Option Plan that is not deemed to be presently exercisable.
- (9) Mr. Tesson and his spouse share investment and voting power with respect to all shares which he beneficially owns. Includes options to purchase 15,000 shares under the Non-Employee Directors' Stock Option Plan that are presently exercisable. Does not include an option to purchase 7,500 shares granted under such Plan that is not deemed to be presently exercisable.
- (10) Includes options to purchase 15,000 shares under the Non-Employee Directors' Stock Option Plan that are presently exercisable. Does not include an option to purchase 7,500 shares granted under such Plan that is not deemed to be presently exercisable.
- (11) Includes options to purchase 50,600 shares that are or will become exercisable by Ms. Squier-Dow within the next 60 days. Does not include 38,225 shares issuable upon the exercise of options that are not deemed to be presently exercisable, nor stock incentive rights with respect to 10,000 shares granted pursuant to ACC's Long-Term Incentive Plan.
- (12) Does not include 33,750 shares issuable upon the exercise of options that are not deemed to be presently exercisable.
- (13) Includes options to purchase 28,199 shares that are or will become exercisable by Mr. Zimmer within the next 60 days. Does not include 8,551 shares issuable upon the exercise of options that are not deemed to be presently exercisable.
- (14) Certain subsidiaries of The Equitable Companies Incorporated (the "Equitable Companies") are deemed to beneficially own the shares set forth in the table, and possess sole voting power with respect to 514,700 of the shares, shared voting power with respect to 378,700 of the shares, and sole dispositive power with respect to all of such shares. The address of the Equitable Companies is 1290 Avenue of the Americas, New York, New York 10104. The foregoing information was reported in a Schedule 13G that was filed with the Commission in February 1998 by the Equitable Companies; AXA-UAP, which beneficially owns a majority interest in the Equitable Companies, and certain other entities which as a group beneficially own a majority interest in AXA-UAP; a copy of which was received by ACC.
- (15) Includes options to purchase a total of 7,500 shares that are or will become exercisable by one executive officer of ACC, in addition to those named above, within the next 60 days. Does not include a total of 7,500 shares issuable upon the exercise of options that are not deemed to be presently exercisable by such executive officer.

SELECTED HISTORICAL CONSOLIDATED FINANCIAL AND OPERATIONS DATA OF ACC

The following selected historical consolidated financial data for each of the years presented have been derived from ACC's audited consolidated financial statements. The consolidated financial statements of ACC as of December 31, 1996 and 1997 and for each of the three years in the period ended December 31, 1997 together with the notes thereto and related report of Arthur Andersen LLP, independent public accountants, are included elsewhere herein. The following data should be read in conjunction with, and is qualified by, the consolidated financial statements and related notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations of ACC," which are included elsewhere herein.

	Year Ended December 31,				
	1993	1994	1995(6)	1996	1997(4)
	(dollars in thousands, except per share amounts)				
Consolidated Statement of Operations Data:					
Revenue:					
Toll revenue	\$ 100,646	\$ 118,331	\$ 175,269	\$ 282,497	\$ 327,490
Local exchange and other	5,300	8,113	13,597	26,270	45,123
Total revenue	105,946	126,444	188,866	308,767	372,613
Network costs	70,286	79,438	114,841	193,599	218,361
Gross Profit	35,660	47,006	74,025	115,168	154,252
Other operating expenses:					
Depreciation and amortization	5,832	8,932	11,614	16,433	23,712
Selling, general and administrative	28,807	44,228	60,865	84,511	111,027
Management restructuring	—	—	1,328	—	—
Equal access charges	—	2,160	—	—	—
Assets write-down	12,807	—	—	—	—
Total other operating expenses	47,446	55,320	73,807	100,944	134,739
Income (loss) from operations(1)	(11,786)	(8,314)	218	14,224	19,513
Other income (expense):					
Interest income	205	124	198	1,151	215
Interest expense	(420)	(2,023)	(5,131)	(5,025)	(3,729)
Merger costs	—	(200)	—	—	(4,970)
Gain on sale of subsidiary stock	9,344	—	—	—	—
Foreign exchange gain (loss)	(1,094)	169	(110)	509	(162)
Total other income (expense)	8,035	(1,930)	(5,043)	(3,365)	(8,646)
Income (loss) from continuing operations before provision for (benefit from) income taxes and minority interest	(3,751)	(10,244)	(4,825)	10,859	10,867
Provision for (benefit from) income taxes	(3,743)	3,456	396	2,185	476
Minority interest in loss (earnings) of consolidated subsidiary	1,661	2,371	(133)	(909)	—
Income (loss) from continuing operations	1,653	(11,329)	(5,354)	7,765	10,391
Loss from discontinued operations (net of income tax benefit of \$667 in 1993)	(1,309)	—	—	—	—
Gain on disposal of discontinued operations (net of income tax provision of \$8,350 in 1993)	11,531	—	—	—	—
Net income (loss)	\$ 11,875	\$ (11,329)	\$ (5,354)	\$ 7,765	\$ 10,391
Less Series A Preferred Stock dividend	—	—	(401)	(972)	—
Less Series A Preferred Stock accretion	—	—	(139)	(1,509)	—
Income (loss) applicable to Common Stock	\$ 11,875	\$ (11,329)	\$ (5,894)	\$ 5,284	\$ 10,391
Net income (loss) per share—basic:(2)					
Continuing operations	\$ 0.16	\$ (1.09)	\$ (0.52)	\$ 0.37	\$ 0.62
Discontinued operations	(0.13)	—	—	—	—
Gain on disposal of discontinued operations	1.13	—	—	—	—
Net income (loss) per share—basic	\$ 1.16	\$ (1.09)	\$ (0.52)	\$ 0.37	\$ 0.62
Net income (loss) per share—diluted:(2)					
Continuing operations	\$ 0.16	\$ (1.09)	\$ (0.52)	\$ 0.34	\$ 0.59
Discontinued operations	(0.12)	—	—	—	—
Gain on disposal of discontinued operations	1.09	—	—	—	—
Net income (loss) per share—diluted	\$ 1.13	\$ (1.09)	\$ (0.52)	\$ 0.34	\$ 0.59
Weighted average number of shares outstanding:(2)					
Basic	10,206,833	10,366,778	11,358,693	14,463,728	16,839,039
Diluted	10,537,388	10,366,778	11,358,693	15,540,115	17,690,223

	Year Ended December 31,				
	1993	1994	1995(6)	1996	1997(4)
	(dollars in thousands, except per share amounts)				
Consolidated Balance Sheet Data(5):					
Cash and cash equivalents	\$ 1,467	\$ 1,021	\$ 518	\$ 2,035	\$ 3,988
Current assets	22,476	28,045	45,726	61,933	92,347
Current liabilities	23,191	32,016	56,074	77,394	89,793
Net working capital (deficit)	(715)	(3,971)	(10,348)	(15,461)	2,554
Property, plant and equipment, net	27,077	44,081	56,691	80,452	135,726
Total assets	61,718	84,448	123,984	204,031	319,618
Short-term debt, including current maturities of long-term debt	2,424	1,613	4,885	4,251	3,853
Long-term debt, excluding current maturities	1,795	29,914	28,050	6,007	90,221
Redeemable preferred stock	—	—	9,448	—	—
Shareholders' equity	31,506	19,086	26,407	117,863	\$137,716
Other Financial and Operations Data:					
Net cash provided by (used in) operating activities	\$(11,828)	\$ 1,093	\$ 3,967	\$ 24,248	\$ 3,691
Class A Common Stock cash dividends declared(3)	\$ 4,233	\$ 831	\$ 243	\$ —	\$ —
Cash dividends declared per share of Class A Common Stock(2)(3)	\$ 0.40	\$ 0.08	\$ 0.02	\$ —	\$ —
Book Value per common share(2)	\$ 3.03	\$ 1.84	\$ 2.23	\$ 7.10	\$ 8.00

- (1) Includes impact of \$2,160 of charges incurred in 1994 in connection with enhancement of the ACC network to prepare for equal access for its Canadian customers. Also includes an asset write-down of \$12,807 in 1993.
- (2) On June 14, 1996, the ACC Board of Directors authorized a three-for-two stock split in the form of a stock dividend issued on August 8, 1996 of the ACC Class A Common Stock to shareholders of record as of July 3, 1996. Share and per share amounts for all prior periods have been adjusted for the stock split.
- (3) The ACC financing arrangements restrict the payment of dividends on the ACC Common Stock. ACC anticipates that it will not pay dividends in the foreseeable future.
- (4) Includes the results of operations of companies acquired by ACC during 1997: Transphone International Ltd. from June 1, 1997, United Telecom Ltd. from July 1, 1997, VISTA International Communications Inc. from August 1, 1997, and Telenational Communications Deutschland Limited Partnership from July 1, 1997.
- (5) Balance sheet data from discontinued operations is excluded.
- (6) Includes the results of operations of Metrowide Communications from August 1, 1995, the date of acquisition.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF ACC

General

ACC's revenue is comprised of toll revenue (per minute charges for long distance services) and local service and other revenue. Toll revenue consists of revenue derived from ACC's long distance and operator-assisted services. Local service and other revenue consists of revenue derived from the provision of local exchange services, including local dial tone, direct access lines, Internet fees and monthly subscription fees, and data services. Network costs consist of expenses associated with the leasing of transmission lines, access charges, and certain variable costs associated with ACC's network. The following table shows the total revenue (net of intercompany revenue) and billable minutes of use attributable to ACC's North American and European operations during each of 1997, 1996, and 1995:

	Year Ended December 31,					
	1997		1996		1995	
	Amount	Percent	Amount	Percent	Amount	Percent
(Amounts in 000s)						
Total Revenue:						
North America:						
United States	\$ 120,627	32.4%	\$ 99,461	32.2%	\$ 65,975	34.9%
Canada	116,638	31.3	117,168	38.0	84,421	44.7
Total North America	<u>237,265</u>	<u>63.7</u>	<u>216,629</u>	<u>70.2</u>	<u>150,396</u>	<u>79.6</u>
Europe:						
United Kingdom	132,151	35.4	92,138	29.8	38,470	20.4
Germany	3,197	.9	—	—	—	—
Total Europe	<u>135,348</u>	<u>36.3</u>	<u>92,138</u>	<u>29.8</u>	<u>38,470</u>	<u>20.4</u>
Total	<u>\$ 372,613</u>	<u>100.0%</u>	<u>\$ 308,767</u>	<u>100.0%</u>	<u>\$ 188,866</u>	<u>100.0%</u>
Billable Long Distance Minutes of Use:						
North America:						
United States	780,232	33.2%	590,341	32.8%	486,618	41.2%
Canada	798,458	33.9	681,200	37.9	522,764	44.2
Total North America	<u>1,578,690</u>	<u>67.1</u>	<u>1,271,541</u>	<u>70.7</u>	<u>1,009,382</u>	<u>85.4</u>
Europe:						
United Kingdom	770,151	32.7	527,905	29.3	172,281	14.6
Germany	4,343	.2	—	—	—	—
Total Europe	<u>774,494</u>	<u>32.9</u>	<u>527,905</u>	<u>29.3</u>	<u>172,281</u>	<u>14.6</u>
Total	<u>2,353,184</u>	<u>100.0%</u>	<u>1,799,446</u>	<u>100.0%</u>	<u>1,181,663</u>	<u>100.0%</u>

The following table presents certain information concerning long distance toll revenue (net of intercompany revenue) per billable minute and network cost per billable minute attributable to ACC's North American and European operations during each of 1997, 1996, and 1995:

	<u>1997</u>	<u>1996</u>	<u>1995</u>
Toll Revenue Per Billable Long Distance Minute:			
North America:			
United States	\$.122	\$.150	\$.126
Canada .....	.122	.150	.146
Total North America .....	.122	.150	.137
Europe:			
United Kingdom .....	.171	.174	.220
Germany .....	.736	—	—
Total Europe .....	.174	.174	.220
Network Cost Per Billable Minute:			
Total North America	\$.084	\$.105	\$.089
Total Europe .....	.110	.114	.149

ACC believes that its historic revenue growth as well as its historic network costs and results of operations for its Canadian and U.K. operations generally reflect the state of development of ACC's operations, ACC's customer mix, and the competitive and regulatory environment in those markets. ACC entered the U.S., Canadian, and U.K. telecommunications markets in 1982, 1985, and 1993, respectively. In 1997, ACC established a subsidiary in Germany, and commenced offering long distance service as a switchless reseller during the third quarter of 1997. For U.S. operations, 1996 revenue and network cost per minute include the effect of \$9.0 million of non-recurring, higher rate per minute and lower margin international carrier sales in the second quarter. ACC believes that toll revenue per billable minute and network cost per billable minute may be lower in future periods, and heavily influenced by competitive pressures and regulatory actions.

Deregulatory influences have affected the telecommunications industry in the U.S. since 1984, and the U.S. market has experienced considerable competition for a number of years. The competitive influences on the pricing of ACC U.S.'s services and network costs have been stabilizing during the past few years. This may change in the future as a result of the 1996 Act that further opened the market to competition, particularly from the RBOCs. ACC has actively pursued growth opportunities in the U.S. market. During the third quarter of 1997, ACC acquired VISTA International Communications, Inc. ("VISTA"). VISTA, headquartered in Mount Arlington, New Jersey, provides long distance and other services to small and medium-sized commercial customers in the Northeastern U.S. with concentrations primarily in New Jersey and Pennsylvania. The VISTA acquisition represents expansion into a contiguous geographic area, with a similar targeted customer segment which is viewed as consistent with ACC's expansion strategy.

The deregulatory trend in Canada, which commenced in 1989, has increased competition. ACC Canada experienced significant downward pressure on the pricing of its services during 1994 and 1995. Although revenue per minute increased from 1995 to 1996 due to changes in customer and product mix, revenue per minute fell during 1997, and ACC expects downward pressure to continue. The impact of this pricing pressure on revenues of ACC Canada is being offset by an increase in the Canadian commercial and student billable minutes of usage as a percentage of total Canadian billable minutes of usage, and introduction of new products and services including 800 service, local exchange resale, Internet services, and, since February 1997, paging services.

ACC believes that, because deregulatory influences have only fairly recently begun to impact the U.K. telecommunications industry, ACC will continue to experience a significant increase in revenue from that market, but the rate of growth is expected to decline. The foregoing belief is based upon expectations of actions that may be taken by U.K. regulatory authorities and ACC's competitors; if such third parties do not act as expected,

ACC's opportunities for revenue growth could be impacted. If ACC U.K. were to experience increased revenues, ACC believes it should be able to enhance its economies of scale and scope in the use of the fixed cost elements of its network. Nevertheless, the deregulatory trend in that market is expected to result in competitive pricing pressure on ACC's U.K. operations, which could adversely affect revenues and margins. Since the U.K. market for transmission facilities is dominated by British Telecom and Cable & Wireless, the downward pressure on prices for services offered by ACC U.K. may not be accompanied by a corresponding reduction in ACC U.K.'s network costs in the short term and, consequently, could adversely affect ACC's business, results of operations and financial condition, particularly in the event revenue derived from ACC's U.K. operations accounts for an increasing percentage of ACC's total revenue. Moreover, ACC's U.K. operations are highly dependent upon the transmission lines leased from British Telecom. As each of the telecommunications markets in which it operates continues to mature, the rate of growth in its revenue and customer base in each such market is likely to decrease over time. ACC has actively pursued growth opportunities and alternate network solutions in the U.K. market. During the second quarter of 1997, ACC acquired Transphone International Ltd. ("Transphone"). Transphone provides domestic and international long distance service as a reseller, and is based in London, U.K. In acquiring Transphone, ACC obtained what it believes is a strong base of commercial customers in a desirable geographic area. During the third quarter of 1997, ACC also acquired United Telecom Ltd. ("UT"). UT provides domestic and international long distance services through a pre-paid calling card platform in retail telephone shops. UT is based in London, U.K. In acquiring UT, ACC obtained what it believes is a new delivery channel in a growing niche market. The acquisition is also expected to create network cost efficiencies, as UT's customers have peak calling activity at night and on weekends. This calling pattern will enable ACC to facilitate routing of off-peak traffic over ACC's switch based network, thereby adding to economies of scale. The Transphone and UT acquisitions are expected to be accretive to earnings commencing in 1998. During the first quarter of 1998, ACC anticipates putting into operations its own microwave facility, linking its three U.K. switching centers. This microwave facility will provide ACC with its own domestic redundant network alternative access to ACC's network for its customers and a lower cost network platform. The foregoing forward looking statements are based upon expectations with respect to customer behavior, market trends and ACC's ability to successfully integrate and develop the businesses acquired. If such expectations are not realized, actual results may differ materially from the foregoing discussion.

The German telecommunications market substantially deregulated in January 1998, as a result of the European Union ("EU") mandate to open telecommunications markets to competition. Most significantly, the German market opened for interconnection in January 1998. ACC has established a subsidiary in Germany, and signed a resale agreement with Deutsche Telekom ("DT") on May 20, 1997. Further, ACC received a Class 4 full voice telephony license from the Germany Ministry of Post and Telecommunications which became effective January 1, 1998. This license is a requirement for ACC to become a switch-based provider of telecommunications services in Germany. In October 1997, ACC signed a network interconnect agreement with DT, which permits utilization of DT's network to link ACC with its customers. With this agreement in place, ACC has installed a switch which it placed in service in February 1998. ACC achieved a small amount of revenue in the fourth quarter of 1997 as a switchless reseller and anticipates potentially more substantial revenue growth in 1998 as a switch-based reseller. The foregoing forward looking statement is based upon expectations with respect to regulatory actions and cooperation from DT which ACC is unable to control. If such expectations are not realized, the expected revenue growth from the German market may not materialize. In addition to the core growth expected from switch-based resale, ACC has actively pursued other growth opportunities in Germany. During the third quarter of 1997, ACC acquired Telenational Communications Deutschland Limited Partnership ("TNC"), a privately held telecommunications service provider headquartered in Hamburg, Germany. TNC provides prepaid calling cards through affinity programs with large commercial customers including Lufthansa, Citibank and Diners Club. The TNC acquisition provides ACC an existing customer base, proven management team and facilitates the start-up efforts in Germany.

Since the commencement of ACC's operations, ACC has undertaken a program of developing and expanding its service offerings, geographic focus, and network. In connection with this development and expansion, ACC has made significant investments in telecommunications circuits, switches, equipment, and

software. These investments generally are made significantly in advance of anticipated customer growth and resulting revenue. ACC also has increased its sales and marketing, customer support, network operations, and field services commitments in anticipation of the expansion of its customer base and targeted geographic markets. ACC expects to continue to expand the breadth and scale of its network and related sales and marketing, customer support, and operating activities. These expansion efforts are likely to cause ACC to incur significant increases in expenses from time to time, in anticipation of potential future growth in ACC's customer base and targeted geographic markets.

In 1997, ACC announced the creation of two continental operating divisions in North America and Europe. In conjunction with this new structure, ACC plans to further expand its European operations as business activity more fully develops in the deregulating German market and by entering other telecommunications marketplaces when regulatory and market conditions warrant. While ACC has had a successful history of entering into newly deregulated markets, there can be no assurances that the same successes will be experienced in the future.

ACC has also expanded operations in the U.S. local exchange business and anticipates that a significant portion of its future growth will come from this business. The local exchange business is highly competitive and includes several larger, better capitalized local service providers, including AT&T, among others, who can sustain losses associated with discount pricing, and the high initial investment and expenses typically incurred to attract local customers. ACC's U.S. local service commenced operations in 1994 and generated an operating profit for 1997 and 1996. However, there can be no assurances that ACC will continue to achieve positive operating cash flow or profitability in this business in the future.

ACC's operating results have fluctuated in the past and they may continue to fluctuate significantly in the future as a result of a variety of factors, some of which are beyond ACC's control. ACC expects to focus in the near term on building and increasing its customer base, service offerings, and targeted geographic markets, which will require it to increase significantly its expenses for marketing and development of its network and new services, and may adversely impact operating results from time to time. ACC's sales to other long distance carriers have been increasing due to ACC's marketing efforts to promote its lower international network costs. Revenue from other resellers accounted for approximately 18% and 27% of the revenues of ACC North America and ACC Europe, respectively, in 1997. Included in 1996 was \$9 million of U.S. non recurring carrier revenue, or 3% of consolidated revenue. Additionally, in 1997 ACC realized significantly reduced revenue from two Canadian carriers of \$10.8 million compared to 1996. With respect to these customers, ACC competes almost exclusively on price, does not have long term contracts, and generates lower gross margins as a percentage of revenue. ACC's primary interest in carrier revenue is to utilize excess capacity on its network. Carrier revenue in 1997 was 21% of consolidated total revenue compared to 24% in 1996. Management believes that carrier revenue will continue to average 20% to 25% of consolidated total revenue as the core businesses continue to grow. The foregoing forward looking statement is based upon expectations with respect to growth in ACC's customer base and total revenues. If such expectations are not realized, ACC's actual results may differ materially from the foregoing discussion.

Results of Operations

The following table presents, for the three years ended December 31, 1997, certain statement of operations data expressed as a percentage of total revenue:

	Year Ended December 31,		
	1997(1)	1996	1995(2)
Revenue:			
Toll revenue	87.9%	91.5%	92.8%
Local service and other	12.1	8.5	7.2
Total revenue	100.0	100.0	100.0
Network costs	58.6	62.7	60.8
Gross profit	41.4	37.3	39.2
Other operating expenses:			
Depreciation and amortization	6.4	5.3	6.1
Selling expenses	13.7	11.0	11.4
General and administrative	16.1	16.4	20.8
Management restructuring	—	—	0.7
Total other operating expenses	36.2	32.7	39.0
Income from operations	5.2	4.6	0.2
Total other expense	(2.3)	(1.1)	(2.7)
Loss from operations before provision for (benefit from) income taxes and minority interest	2.9	3.5	(2.5)
Provision for income taxes	0.1	0.7	0.2
Minority interest in earnings of consolidated subsidiary	—	(0.3)	(0.1)
Income (loss) from operations	2.8%	2.5%	(2.8)%

- (1) Includes the results of operations of companies acquired during 1997: Transphone International Ltd. from June 1, 1997, United Telecom Ltd. from July 1, 1997, VISTA International from August 1, 1997 and Telenational Communications Deutschland Limited Partnership from July 1, 1997.
- (2) Includes the results of operations of Metrowide Communications from August 1, 1995, the date of acquisition.

1997 Compared with 1996

Revenue. Total revenue for 1997 increased \$63.8 million, or 21% to \$372.6 million from \$308.8 million in 1996. Long distance toll revenue increased \$45.0 million, or 16%, to \$327.5 million from \$282.5 million in 1996. The growth in long distance toll revenue was fueled by a 31% increase in billable minutes. Revenue from wholesale carriers in 1997 increased to \$78.9 million (21% of total revenue) from \$73.4 million (24% of total revenue) in 1996. Significantly reduced revenue from two Canadian carriers were realized in 1997, accounting for a \$10.8 million reduction in carrier revenue from the same period in 1996. Additionally, the 1996 period reflects \$9 million of U.S. non-recurring carrier revenue. Excluding total wholesale carrier revenue, long distance toll revenue for 1997 increased 19% from 1996. Long distance toll revenue per billable minute for the current period decreased 11%, from \$.157 to \$.139, largely a result of competitive pricing pressures and change in customer mix. The growth in other revenue is largely attributable to growth in market share in the competitive local exchange business in the U.S. and a full year of revenues from Internet Canada compared to seven months in 1996.

Total revenue (unaffiliated) in North America for 1997 increased 10% from 1996. Long distance toll revenue (unaffiliated) increased 1% from 1996. However, 1996 included \$9 million of non-recurring carrier revenue, and 1997 reflects reduced revenue from two carriers of \$10.8 million. Excluding total carrier revenue, long distance toll revenue in 1997 increased 11% from 1996, and is attributable to core growth in minutes and customer accounts and from acquisitions. Long distance toll revenue per minute for 1997 decreased 19% from

\$.150 to \$.122, largely a result of competitive pricing pressures in both the U.S. and Canada. Retail price pressures in each market are expected to continue which may impact ACC's margin. Local service and other revenue for 1997 increased \$18.9 million or 72% from 1996, a result of growth in U.S. local exchange revenue and increased Internet related revenue in Canada. ACC continues to invest in the local exchange business, having installed switches during 1997 in Buffalo, Albany, New York City, Boston and Springfield, Massachusetts. Continued expansion and growth in non-toll revenue, including local exchange service, Internet and other services is expected to become a larger component of total revenue in future periods. As a percent of total revenue, non-toll revenue for 1997 was 12% compared to 8% for 1996.

Total revenue (unaffiliated) in Europe (substantially all long distance toll revenue) for 1997 increased 47% from 1996. Excluding carrier revenue, long distance toll revenue for 1997 increased 33% from 1996, and is attributable to core growth in minutes and commercial and student customer accounts, and from acquisitions. Long distance toll revenue per billable minute for 1997 of \$.174 remained unchanged from 1996, as the impact of higher revenue from carriers partially offset retail price reductions implemented during the period for international and domestic long distance rates. The German operating unit contributed a modest amount of revenue from the acquired TNC customer base as well as from switchless resale activity. Revenue per minute in Germany of \$.736 in 1997 reflects a high concentration of higher rate international traffic.

Network Costs. Network costs for 1997 increased \$24.8 million or 13% to \$218.4 million from \$193.6 million in 1996. As a percent of revenue, network costs for 1997 was 59% compared to 63% in 1996. Network costs per billable minute for 1997 decreased 14%, from \$.108 to \$.093. The reduction in network costs as a percent of revenue, and per billable minute, is largely attributable to reduced contribution charges enacted during 1997 in Canada, a favorable shift in business/customer mix as higher margin local exchange revenue constitute a higher percent of revenue in 1997 as compared to 1996, declining access rates for origination and termination, and internal network efficiencies.

Network costs in North America for 1997 as a percent of unaffiliated revenue decreased to 57% from 62% for 1996, and per billable minute also decreased from \$.105 to \$.084. These improvements resulted from the aforementioned reduction in Canadian contribution charges, increased amount of higher margin local exchange revenue in the U.S., and internal network efficiencies. Network costs in Europe for 1997 as a percent of unaffiliated revenue decreased to 62% from 65% in 1996, and per billable minute decreased from \$.114 to \$.110. Recent investments in switches, a U.K. microwave network and IRU are expected to more significantly lower network costs in the near term, as ownership of these facilities will enable ACC to reduce reliance on leased lines and increase network capacity. This forward looking statement is based on expectations regarding customer demand and the relative cost and availability of leased lines and alternative transmission facilities in ACC's markets, and could be adversely impacted by competitive pricing pressures. If such expectations are not realized, ACC's actual results may differ materially from the foregoing discussion.

Other Operating Expenses—Selling, General and Administrative Expenses. Total Selling, General and Administrative expenses ("SG&A") for 1997 increased \$26.5 million, or 31%, to \$111.0 million from \$84.5 million in 1996. As a percent of revenue, SG&A increased to 30% from 27%. This increase is largely attributable to higher selling expenses (i.e., agents, salesperson and customer commissions) associated with growth in local exchange revenue, added overhead from acquired entities and infrastructure costs to support expansion in Germany.

Other Income (Expense). Net interest expense for 1997 decreased by \$.4 million from 1996. Merger costs in 1997 of \$5.0 million were incurred in connection with the then pending mergers with U.S. WATS Inc., and Teleport Communications Group Inc., and includes costs for investment advisory, legal, accounting and other professional services. Foreign exchange gains/losses reflect changes in the value of amounts borrowed by the foreign subsidiaries from ACC Corp., and ACC U.S., net of gains/losses on associated hedging contracts. ACC continues to hedge substantially all intercompany loans to foreign subsidiaries in an attempt to reduce the impact of transaction gains or losses. ACC does not engage in speculative foreign currency transactions. In 1997, ACC recognized losses on foreign currency transactions of \$.2 million compared to gains of \$.5 million in 1996.

Provision for Income Taxes. Provision for income taxes for 1997 of \$.5 million represented an effective tax rate of 4% compared to \$2.2 million or an effective tax rate of 20% in 1996. Income taxes are provided on all taxable income in excess of available net operating loss carryforwards ("NOL's") at the statutory rate applicable for each country. ACC continues to utilize NOL's to offset taxable income generated in Canada and the U.K. The increase in operating earnings in both of these subsidiaries, which is not subject to tax due to utilization of NOL's, reduces the effective tax rate for the consolidated company. ACC anticipates that its effective tax rate will increase significantly in the future as taxable income in each country increases.

Minority Interest in Earnings of Consolidated Subsidiary. Minority interest for 1996 reflects the portion of ACC's Canadian subsidiary's income attributable to the approximately 30% of that subsidiary's common stock that was publicly traded in Canada. Prior to December 31, 1996, ACC repurchased approximately 24% of the outstanding shares, and the remaining 6% was repurchased in January 1997. As a result, the Canadian subsidiary is currently 100% owned, with no remaining minority interest.

ACC's income from operations for 1997 was \$19.5 million compared to \$14.2 million in 1996, and was comprised of the following: North American operations \$13.2 million as compared to \$12.0 million in 1996, and European operations \$6.3 million as compared to \$2.2 million in 1996.

1996 Compared with 1995

Revenue. Total revenue for 1996 increased by 63% to \$308.8 million from \$188.9 million in 1995, reflecting growth in both toll revenue and local service and other revenue. Toll revenue for 1996 increased by 61% to \$282.5 million from \$175.2 million in 1995. In the United States, toll revenue increased 45% as a result of a 21% increase in billable minutes of use, primarily due to increased international sales to carriers. These international sales have a higher rate per minute, also contributing to the revenue increase. The 1996 results include \$9.0 million in non-recurring carrier revenue. Excluding this non-recurring revenue, U.S. toll revenue increased 30% over 1995. In Canada, toll revenue increased 34%, as a result of a 30% increase in billable minutes, and an increase in prices due to additional residential customers which typically have a higher revenue per minute. In the United Kingdom, toll revenue increased 142%, due to significant volume increases offset by lower prices that resulted from entering the commercial and residential markets and from competitive pricing pressure. Since the end of 1994, ACC's revenues per minute on a consolidated basis have been increasing slightly as a result of the increasing percentage of U.K. revenues and ACC's successful introduction of higher price per minute products, including international carrier revenue. Exchange rates did not have a material impact on ACC's consolidated revenue.

For 1996, local service and other revenue increased by 93% to \$26.3 million from \$13.6 million in 1995. This increase was primarily due to the Metrowide Communications acquisition as of August 1, 1995 (approximately \$5.2 million), local service revenue generated through the university program in the U.S. (approximately \$0.4 million), and the CLEC operations in upstate New York (approximately \$5.6 million). ACC is anticipating that a significant portion of its growth in the U.S. operations in the future will come from CLEC operations.

Gross Profit. Gross profit (defined as revenue less network costs) for 1996 increased to \$115.2 million from \$74.0 million in 1995, primarily due to the increases in revenue discussed above. Expressed as a percentage of revenue, gross profit decreased to 37% for 1996 from 39% for 1995, due to an increase in lower margin carrier traffic in the U.S., offset partially by improved margins in Canada and the U.K. due to network efficiencies and reductions in fixed charges from suppliers.

Other Operating Expenses. Depreciation and amortization expense increased to \$16.4 million for 1996 from \$11.6 million in 1995. Expressed as a percentage of revenue, these costs decreased to 5% in 1996 from 6% in 1995, reflecting the increases in revenue realized during 1996. The \$4.8 million increase in depreciation and amortization expense was primarily attributable to assets placed in service throughout 1996. Amortization of

approximately \$1.1 million associated with the customer base and goodwill recorded in the Metrowide Communications and Internet Canada asset acquisitions also contributed to the increase.

Selling expenses for 1996 increased by 58% to \$34.1 million compared with \$21.6 million in 1995. Expressed as a percentage of revenue, selling expenses were 11% for 1996 compared to 11% for 1995. The \$12.5 million increase in selling expenses was primarily attributable to increased marketing costs and sales commissions associated with supporting ACC's 63% growth in revenue for 1996, particularly in the U.K. General and administrative expenses for 1996 were \$50.4 million compared with \$39.2 million in 1995. Expressed as a percentage of revenue, general and administrative expenses were 16% for 1996, compared to 21% in 1995. The increase in general and administrative expenses was primarily attributable to the Canadian (\$4.3 million increase) and the U.K. (\$4.4 million increase) subsidiaries. In the U.K., costs were incurred to develop an infrastructure to support the sizable revenue growth experienced in 1996, with headcount increasing 56% over previous year levels. In Canada, headcount increased approximately 52%, partially as a result of the acquisition of Internet Canada, and partially to develop an infrastructure to support the increasing product lines and services being offered. Also included in general and administrative expenses for 1996 was approximately \$4.4 million related to ACC's local service market sector in New York State, compared to \$1.8 million in 1995.

Other Income (Expense). Interest expense remained fairly constant at \$5.0 million for 1996 compared to \$5.1 million in 1995. The 1996 expense includes the accrual of a \$2.1 million contingent interest payment due to the lenders under ACC's credit facility. The 1995 amount includes expense associated with the subordinated debt which was converted to Series A Preferred Stock in September 1995, as well as expense associated with line of credit borrowings to finance working capital and capital expenditure needs. Interest income increased to \$1.2 million in 1996 from \$0.2 million in 1995, due to the invested proceeds from the ACC Class A Common Stock offering in May 1996.

Foreign exchange gains and losses reflect changes in the value of the Canadian dollar and the British pound sterling relative to the U.S. dollar for amounts lent to foreign subsidiaries. Foreign exchange rate changes resulted in a net gain of \$0.5 million for 1996, compared to a \$0.1 million loss in 1995, which was primarily due to a one-time gain related to a transaction which occurred on October 21, 1996 and was hedged 28 days later. The Canadian dollar moved favorably relative to the U.S. dollar during that period. ACC continues to hedge all foreign currency transactions in an attempt to minimize the impact of transaction gains and losses on the income statement. ACC's policy is to not engage in speculative foreign currency transactions.

Provision for Income Taxes. Provision for income taxes reflects the anticipated income tax liability of ACC's U.S. operations based on its pretax income for the year. The provision for income taxes increased in 1996 due to increased profitability in the U.S. business. ACC does not provide for income taxes nor recognize a benefit related to income in foreign subsidiaries due to net operating loss carryforwards generated by those subsidiaries in prior years.

Minority Interest in Earnings of Consolidated Subsidiary. Minority interest in earnings of consolidated subsidiary reflects the portion of ACC's Canadian subsidiary's income or loss attributable to the percentage of that subsidiary's common stock that was publicly traded in Canada. Prior to October 1996, approximately 30% of ACC Canada's stock was publicly traded. Prior to December 31, 1996, ACC repurchased approximately 24% of the outstanding shares, and the remaining 6% was repurchased subsequent to December 31, 1996. The purchase of the remaining shares was approved prior to December 31, 1996. For 1996, minority interest in earnings of consolidated subsidiary was a loss of \$0.9 million compared to a loss of \$0.1 million in 1995.

ACC's net income for 1996 was \$7.8 million, compared to a net loss of \$5.4 million in 1995. The 1996 net income resulted from ACC's operations in Canada (approximately \$2.6 million); in the United Kingdom (approximately \$0.7 million); and in the United States (approximately \$4.5 million). The 1995 net loss resulted primarily from the expansion of operations in the U.K. (approximately \$6.8 million); increased net interest expense associated with additional borrowings (approximately \$4.9 million); increased depreciation and amortization from the addition of equipment and costs associated with the expansion of local service in New York State (approximately \$1.6 million); and management restructuring costs (approximately \$1.3 million),

offset by positive operating income from the U.S. and Canadian long distance subsidiaries of approximately \$9.0 million.

Liquidity And Capital Resources

Net cash flows provided by operations in 1997 were \$3.7 million compared to \$24.2 million for 1996. The decrease of \$20.5 million primarily resulted from reductions in other accrued expenses of \$9.5 million in 1997 versus increases of \$9.0 million in 1996. The reduction of other accrued expenses in 1997 includes the impact of payments of approximately \$16 million of non-recurring expenses accrued as of December 31, 1996. Cash provided from net income before depreciation and amortization in 1997 increased \$10 million over 1996, but this was offset by increases in accounts receivable (which increased in tandem with revenue growth) and changes in other working capital accounts.

Net cash flows used in investing activities in 1997 were \$91.3 million compared to \$67.7 million for 1996. The increase of \$23.6 million primarily resulted from greater investments in capital expenditures (largely switch equipment) of \$68.5 million in 1997 compared to \$33.0 million in 1996, and from the purchase in 1997 of Transphone, United Telecom, TNC and VISTA with an aggregate payment (net of cash acquired) of \$22.0 million. In 1996, ACC repurchased the minority interest of ACC Canada, and that investment totaled \$32.1 million.

Net cash provided by financing activities for 1997 was \$86.1 million compared to \$46.2 million in 1996. The increase of \$39.9 million reflects greater utilization of a credit facility in 1997 to fund expansion (net increase in 1997 of \$89 million versus a net decrease of \$22 million in 1996), partially offset by lower proceeds in 1997 from issuance of common stock (\$9.8 million in 1997 versus \$72.7 million in 1996).

ACC's principal need for working capital is to meet its selling, general, and administrative expenses, network costs and capital expenditures as its business expands. In addition, ACC's capital resources have been used for acquisitions (i.e., Metrowide Communications, Internet Canada, Transphone, United Telecom, VISTA and TNC), capital expenditures, and the repurchase of the minority interest in ACC Canada. ACC has historically reflected working capital deficits at the end of the last several years, but at December 31, 1997, reflected a working capital surplus of approximately \$2.6 million, due primarily to utilization of its credit facility to satisfy current liabilities.

Approximately \$68.5 million in capital expenditures were recorded in 1997. ACC expects that it will continue to make significant capital expenditures during future periods, particularly for switching equipment for the U.K. and Germany, and for local exchange switches in the U.S. markets and related costs, and billing systems. ACC's actual capital expenditures and cash requirements will depend on numerous factors, including the nature of future expansion (including the extent of local exchange services, which is particularly capital intensive), and acquisition opportunities, economic conditions, competition, regulatory developments, the availability of capital and the ability to incur debt and make capital expenditures under the terms of ACC's financing arrangements.

As of December 31, 1997, ACC had approximately \$4.0 million of cash and cash equivalents and maintained a \$150 million credit facility, subject to availability under a borrowing base formula and certain other conditions (including borrowing limits based on ACC's operating cash flow), under which \$87.8 million was outstanding.

As of December 31, 1997, ACC had \$5.3 million of capital lease obligations which mature at various times from 1998 through 2002. During 1997, ACC prepaid a \$4.0 million capitalized lease obligation using funds from its credit facility. ACC's financing arrangements, which are secured by substantially all of ACC's assets including stock of certain subsidiaries, require ACC to maintain certain financial ratios.

In the normal course of business, ACC uses various financial instruments, including derivative financial instruments, for purposes other than trading. These instruments include letters of credit, guarantees of debt, interest rate swap agreements, and foreign currency exchange contracts relating to intercompany payables of foreign subsidiaries. ACC does not use derivative financial instruments for speculative purposes. Foreign currency exchange contracts are used to mitigate foreign currency exposure and are intended to protect the U.S. dollar value of certain currency positions and future foreign currency transactions. The aggregate fair value, based on published market exchange rates, of ACC's foreign currency forward contracts at December 31, 1997 was \$61.8 million. When applicable, interest rate swap agreements are used to reduce ACC's exposure to risks associated with interest rate fluctuations. As is customary for these types of instruments, collateral is generally not required to support these financial instruments.

By their nature, all such instruments involve risk, including the risk of nonperformance by counterparties, and ACC's maximum potential loss may exceed the amount recognized on ACC's balance sheet. However, at December 31, 1997, in management's opinion there was no significant risk of loss in the event of nonperformance of the counterparties to these financial instruments. ACC controls its exposure to counterparty credit risk through monitoring procedures and by entering into multiple contracts, and management believes that no reserves for losses are required. Based upon ACC's knowledge of the financial position of the counterparties to its existing derivative instruments, ACC believes that it does not have any significant exposure to any individual counterparty or any major concentration of credit risk related to any such financial instruments.

On December 19, 1997, ACC amended and restated its credit facility increasing the amount available to \$150 million (the "Amended Credit Facility"). The Amended Credit Facility is syndicated among six financial institutions. Borrowings can be made in U.S. dollars, Canadian dollars, British pounds sterling and German Deutsche Marks, and are limited individually to \$30.0 million for ACC Canada, \$50.0 million for ACC U.K., and \$20.0 million for ACC Germany, with any unused capacity available for ACC Corp. and its U.S. subsidiaries. The Amended Credit Facility will be used to finance capital expenditures and provide working capital. The Amended Credit Facility limits the amount that may be borrowed against this facility based on ACC's operating cash flow. The Amended Credit Facility also contains certain covenants including restrictions on the payment of dividends, maintenance of a maximum leverage ratio, minimum debt service coverage ratio, maximum fixed charge coverage ratio, and minimum net worth, all as defined under the Amended Credit Facility, and subjective covenants. At December 31, 1997, ACC had available \$59.0 million under the Amended Credit Facility. Borrowings under the Amended Credit Facility are secured by certain of ACC's assets and will bear interest at either the LIBOR rate or the base rate (representing the greater of the prime interest rate or the federal funds rate plus ½%), with additional percentage points added based on a ratio of debt to operating cash flow, as defined in the Amended Credit Facility. The maximum aggregate commitment and the sublimits of the Amended Credit Facility are required to be reduced by 8.0% per quarter commencing on March 31, 2000 until December 31, 2001, and by 9.0% per quarter commencing on March 31, 2002 until maturity of the loan in December 2002. All amounts outstanding under the Amended Credit Facility may become due and payable, at the discretion of the financial institutions, upon the closing of the Merger. ACC is currently negotiating with its lenders to obtain a waiver of this requirement. There can be no assurance that such a waiver will be obtained.

ACC believes that, under its present business plan, access to cash through the Amended Credit Facility and cash from operations will be sufficient to meet anticipated working capital needs, capital expenditure requirements and expansion plans for the foreseeable future. The forward-looking information contained in the previous sentence may be affected by a number of factors, including the matters described in this paragraph and "Risk Factors". ACC may need to raise additional capital from public or private equity or debt sources in order to finance its operations, capital expenditures, and growth for future periods. In addition, ACC may have to refinance a substantial amount of indebtedness and obtain additional funds prior to 2002, when the Amended Credit Facility matures. Moreover, ACC believes that continued growth and expansion through acquisitions, investments, and strategic alliances is important to maintain a competitive position in the market and, consequently, a principal element of ACC's business strategy is to develop relationships with strategic partners and to acquire assets or make investments in businesses that are complementary to its current operations. ACC

may need to raise additional funds in order to take advantage of opportunities for acquisitions, investments, and strategic alliances or more rapid international expansion, to develop new products, or to respond to competitive pressures. There can be no assurance that ACC will be able to raise such capital on acceptable terms or at all. ACC's ability to obtain additional sources of capital will depend upon, among other things, its financial condition at the time, the restrictions and the instruments governing its indebtedness and other factors, including market conditions, beyond the control of ACC. Additional sources of capital may include public and private equity and debt financings, sale of assets, capitalized leases and other financing arrangements. In the event that ACC is unable to obtain additional capital or is unable to obtain additional capital on acceptable terms, ACC may be required to reduce the scope of its presently anticipated expansion opportunities and capital expenditures, which could have a material adverse effect on its business, results of operations and financial condition and could adversely impact its ability to compete.

ACC may seek to develop relationships with strategic partners both domestically and internationally and to acquire assets or make investments in businesses that are complementary to its current operations. Such acquisitions, strategic alliances, or investments may require that ACC obtain additional financing and, in some cases, the approval of ACC's creditors. ACC's ability to effect acquisitions, strategic alliances, or investments may depend upon its ability to obtain such financing and, to the extent applicable, consents from creditors.

The Merger Agreement contains certain restrictions on the conduct of ACC's business prior to the consummation of the Merger. See "The Merger Agreement."

Recently Issued Accounting Standards

In June 1997, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 130, "Reporting Comprehensive Income". SFAS No. 130 requires that all items that are required to be recognized under accounting standards as components of comprehensive income be reported in a financial statement that is displayed with the same prominence as other financial statements. This statement is effective for financial statements issued for periods beginning after December 15, 1997. Management believes that the adoption of this statement will not have a material effect on ACC's consolidated results of operations or financial position.

In June 1997, the FASB issued SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information". SFAS No. 131 requires the reporting of profit and loss, certain specific revenue and expense items, and assets for reportable segments. It also requires the reconciliation of total segment revenues, total segment profit or loss, total segment assets, and other amounts disclosed for segments to the corresponding amounts in the general purpose financial statements. SFAS No. 131 is effective for fiscal years beginning after December 15, 1997. Management believes that the adoption of this statement will not have a material effect on ACC's consolidated results of operations or financial position.

THE MERGER AGREEMENT

The following description of certain provisions of the Merger Agreement and the schedules thereto is only a summary and does not purport to be complete. This description is qualified in its entirety by reference to the complete text of the Merger Agreement which is included in this Proxy Statement/Prospectus as Appendix A.

The Merger

Merger

The Merger Agreement provides that MergerCo will merge with and into ACC in accordance with the DGCL and the separate existence of MergerCo will cease, and ACC, as the surviving corporation in the Merger (the "Surviving Corporation"), shall continue its corporate existence under Delaware law as a subsidiary of TCG.

A Certificate of Merger will be filed within five business days after all of the conditions (other than those to be satisfied at the time of the Merger) set forth in the Merger Agreement have been satisfied or waived by the party or parties entitled to the benefit of such conditions. TCG and ACC shall mutually determine the time and place of the closing of the Merger. The Merger will become effective at the time of the filing of the Certificate of Merger with the Secretary of State of Delaware or at such later time as may be specified in the Certificate of Merger (the "Effective Time").

Merger Consideration

Each of the issued and outstanding shares of ACC Stock as of the Effective Time shall be converted into the right to receive that number of shares of TCG Class A Common Stock equal to the product of one (1), multiplied by the Exchange Ratio. The "Exchange Ratio" means:

- (i) if the Average Price (as defined below) is less than \$45.00, 1.11111;
- (ii) if the Average Price is equal to or greater than \$45.00, but not in excess of \$55.00, a fraction, the numerator of which shall be \$50.00 and the denominator of which shall be the Average Price; or
- (iii) if the Average Price is greater than \$55.00, 0.90909;

subject to payment of cash in lieu of any fractional share (the "Merger Consideration").

The "Average Price" means the average of the last reported sales prices per share of the TCG Class A Common Stock as reported on Nasdaq for the ten consecutive trading days immediately preceding the trading day immediately prior to the Closing Date.

No fractional shares of TCG Class A Common Stock shall be issued. In lieu of fractional shares, any person who would otherwise be entitled to a fractional share of TCG Class A Common Stock shall receive an amount in cash equal to the value of such fractional share. Such value shall be the product of such fraction multiplied by the last sales price of TCG Class A Common Stock as reported on Nasdaq on the business day immediately prior to the Closing Date. The Exchange Ratio is subject to appropriate adjustment in the event of a stock split, stock dividend or recapitalization after the date of the Merger Agreement applicable to shares of TCG Class A Common Stock.

Exchange of Certificates; Exchange Agent

Each share of ACC Stock shall be canceled as of the Effective Time. The shares of MergerCo common stock outstanding immediately prior to the Merger will be converted into one share of the common stock of the Surviving Corporation (the "Surviving Corporation Common Stock"), which one share of the Surviving Corporation Common Stock shall constitute all of the issued and outstanding capital stock of the Surviving Corporation and shall be owned by TCG.

Prior to the Closing Date, TCG shall appoint an agent to act as exchange agent (the "Exchange Agent") for the Merger. On the Closing Date, TCG shall instruct the Exchange Agent to mail to each ACC stockholder within five business days of receiving from ACC a list of such stockholders of record, a letter of transmittal and instructions for use in effecting the surrender of certificates representing ACC Stock in exchange for certificates and cash, if any, representing the Merger Consideration.

After the Effective Time, each holder of a share of ACC Stock will surrender and deliver the certificates to the Exchange Agent together with a duly completed and executed transmittal letter. Upon such surrender and delivery, the holder shall receive a certificate and cash, if any, representing the Merger Consideration. Until so surrendered and exchanged, each outstanding certificate representing ACC Stock after the Effective Time shall be deemed to evidence the right to receive that number of whole shares of TCG Class A Common Stock into which the shares of ACC Stock have been converted, subject to payment of cash in lieu of any fractional share. No dividends or other distributions in respect of the shares of TCG Class A Common Stock, declared after the Effective Time and payable to holders of record after the Effective Time, shall be paid to the holders of any unsurrendered certificates representing ACC Stock until such certificates and letters of transmittal are surrendered and delivered. After the surrender and exchange of certificates, the record holders thereof will be entitled to receive any such dividends or other distributions without interest. Holders of any unsurrendered certificates representing ACC Stock shall not be entitled to any rights as a holder of TCG Class A Common Stock until such certificates are exchanged.

Stock Options and Stock Incentive Rights

At the Effective Time, TCG shall cause each holder of an ACC Option or ACC SIR exercisable for shares of ACC Stock to receive options or stock incentive rights, respectively, exercisable for shares of TCG Class A Common Stock having the same terms and conditions as the ACC Options and ACC SIRs, except that the exercise price and the number of shares issuable upon exercise shall be divided and multiplied, respectively, by the Exchange Ratio and any unvested ACC Options or ACC SIRs shall become fully exercisable as a result of the Merger.

Certificate of Incorporation and Bylaws of Surviving Corporation

At and after the Effective Time, the Certificate of Incorporation of the Surviving Corporation shall be amended to be identical to the Certificate of Incorporation of MergerCo in effect at the Effective Time. At and after the Effective Time, the Bylaws of MergerCo in effect at the Effective Time shall be the Bylaws of the Surviving Corporation.

Acquisition Proposals

ACC covenants in the Merger Agreement that it will, and will direct and use commercially reasonable efforts to cause its officers, directors, employees, representatives and agents to, cease from and after the date of the Merger Agreement any discussions or negotiations with any parties that may be ongoing with respect to an ACC Takeover Proposal (as hereinafter defined). ACC will not, nor will it authorize or permit its subsidiaries, officers, directors, employees or agents or any representative to, (i) solicit, initiate or encourage or take any other action designed or reasonably likely to facilitate any proposal which constitutes or may reasonably be expected to lead to any ACC Takeover Proposal or (ii) participate in any discussions or negotiations regarding any ACC Takeover Proposal.

If, however, prior to the Special Meeting, the Board of Directors of ACC determines in good faith, upon advice from outside counsel, that it is necessary to do so in order to comply with its fiduciary duties to ACC's stockholders under applicable law, ACC may, in response to an ACC Takeover Proposal or material modification to an ACC Takeover Proposal made after the date of the Merger Agreement and not solicited after the date of the Merger Agreement, (i) furnish information with respect to ACC to any person pursuant to a confidentiality agreement and (ii) participate in negotiations regarding such ACC Takeover Proposal or material modification made after the date of the Merger Agreement.

Subject to the above-mentioned exception, the Board of Directors of ACC cannot (i) withdraw or modify, or propose publicly to withdraw or modify, in a manner adverse to TCG, or take any actions that are not explicitly permitted by the Merger Agreement and that would be inconsistent with, the approval or recommendation by such Board of Directors of the Merger; (ii) approve or recommend or propose publicly to approve or recommend any ACC Takeover Proposal; or (iii) cause ACC to enter into any agreement related to any ACC Takeover Proposal. However, if the ACC Board of Directors in good faith determines prior to the time of the Special Meeting, after receipt of advice from outside counsel, that it is necessary to do so to comply with applicable law, it may (i) withdraw or modify its approval or recommendation of the Merger or (ii) approve or recommend an ACC Superior Proposal (as defined below) or, subject to the payment of the termination fee discussed below, terminate the Merger Agreement, but only after the third day following TCG's receipt of written notice.

ACC will immediately advise TCG orally and in writing of any request by any person for information about ACC or of any ACC Takeover Proposal, the material terms and conditions of such request or ACC Takeover Proposal and the identity of the person making such request or ACC Takeover Proposal, unless the Board of Directors decides in good faith, after receipt of advice from outside counsel, that, in order to comply with its fiduciary duties to ACC's stockholders, it cannot specify certain information, in which case ACC may omit such information from such notice.

"ACC Takeover Proposal" means any inquiry, proposal or offer from any person relating to the direct or indirect acquisition or purchase of 15% or more of the assets of ACC and its subsidiaries or 15% or more of any class of equity securities of ACC or any of its subsidiaries, any tender offer or exchange offer that if consummated would result in any person beneficially owning 15% or more of any class of equity securities of ACC or any of its subsidiaries, any merger, consolidation, share exchange, business combination, recapitalization, liquidation, dissolution or similar transaction involving ACC or any of its subsidiaries (other than the transactions contemplated by the Merger Agreement) or any other transaction the consummation of which could reasonably be expected to impede, interfere with, prevent or materially delay the Merger or which would reasonably be expected to diminish materially the benefits to TCG of the transactions contemplated by the Merger Agreement.

"ACC Superior Proposal" means any bona fide proposal made by a third party to acquire, directly or indirectly, for consideration consisting of cash and/or securities, more than 15% of the voting power of the shares of ACC Stock then outstanding or all or substantially all the assets of ACC and otherwise on terms which the Board of Directors of ACC determines in its good faith judgment (based on the advice of a financial advisor of nationally recognized reputation) to be materially more favorable to ACC's stockholders than the Merger and for which financing, to the extent required, is then committed or which, in the good faith judgment of the Board of Directors of ACC, is reasonably capable of being financed by such third party.

Representations and Warranties

The Merger Agreement contains various representations of TCG and ACC. The respective representations and warranties of the parties shall not survive beyond the Effective Time.

Representations and Warranties of ACC

The representations, warranties and certain covenants of ACC relate generally to: (i) corporate organization, good standing and capitalization; (ii) the authorization, execution, delivery and enforceability of the Merger Agreement; (iii) approval of governmental authorities; (iv) absence of violations of, among other things, the Certificate of Incorporation, Bylaws, certain contracts or laws; (v) documents filed with the Commission and the accuracy of information, including financial statements in accordance with generally accepted accounting principles, contained therein; (vi) the absence of any material adverse events affecting ACC's business, any material change by ACC in its accounting methods or any undisclosed liabilities; (vii) compliance with laws and possession of all required permits; (viii) absence of brokers or finders, other than ACC's financial advisor; (ix) certain ACC material contracts; (x) employee benefit plans; (xi) taxes; (xii) receipt of a fairness opinion from

ACC's financial advisor; (xiii) Board of Director approval of the Merger Agreement; (xiv) absence of action that would adversely affect the ability of TCG to treat the Merger as a pooling of interests; and (xv) absence of action that would cause the Rights to become exercisable, to cause any person to become an Acquiring Person or give rise to a Distribution Date (as such terms are defined in the ACC Rights Agreement).

Representations and Warranties of TCG

The representations, warranties and certain covenants of TCG relate generally to: (i) corporate organization, good standing and capitalization; (ii) the authorization, execution, delivery and enforceability of the Merger Agreement; (iii) approval of governmental authorities; (iv) the absence of violations of, among other things, the Certificate of Incorporation, Bylaws, certain contracts or laws; (v) documents filed with the Commission and the accuracy of information, including financial statements in accordance with generally accepted accounting principles, contained therein; and (vi) the absence of any material adverse events affecting TCG's business, any material change by TCG in its accounting methods or any undisclosed liabilities.

Certain Covenants

The covenants and agreements of the parties listed in the Merger Agreement shall not survive beyond the Effective Time, except for those relating to indemnification and except for the agreements entered into by affiliates of ACC.

Certain Covenants of ACC

Conduct of Business of ACC and ACC Subsidiaries

Pursuant to the Merger Agreement, ACC has covenanted and agreed to conduct its businesses in the ordinary course and consistent with past practice, and to use commercially reasonable efforts to preserve intact its business organization, to keep available the services of its officers and employees and to maintain satisfactory relationships with all persons with whom it does business, except as contemplated or permitted by the Merger Agreement.

Additionally, ACC agreed not to, without prior written consent of TCG, (i) amend its Certificate of Incorporation or Bylaws, (ii) issue rights of any kind (with certain exceptions) to acquire or sell any shares of the securities of ACC or its subsidiaries, (iii) split, combine or reclassify any shares of capital stock or pay certain dividends, (iv) other than in the ordinary course of business, create debt obligations in respect of capital leases (with certain exceptions), make capital expenditures or loans or investments in any other person (with certain exceptions), acquire the stock or assets of, or merge or consolidate with, any other person (with certain exceptions), voluntarily incur any material liability or obligation or sell or otherwise dispose of or encumber any assets or properties material to ACC and its subsidiaries (with certain exceptions), (v) other than as required by law or agreement, increase the compensation paid to its officers in excess of 5% from the prior year, increase the compensation of its employees, other than in the ordinary course, enter into, amend or terminate certain employment agreements, employee benefit agreements and retirement plans, or with certain exceptions, permit the exercise of stock options or payment of related taxes by any means other than cash, and (vi) enter into or amend any lease of real property other than in the ordinary course of business, consistent with past practice.

ACC and its subsidiaries will use reasonable efforts to comply in all material respects with all laws applicable to it or its properties, assets or business and maintain all necessary permits.

Commercially Reasonable Efforts

ACC has covenanted and agreed to use its commercially reasonable efforts to take all actions necessary to consummate the Merger and the transactions contemplated by the Merger Agreement, including, but not limited to (i) obtaining the consent of ACC's lenders and others to the Merger Agreement and the transactions

contemplated thereby; (ii) defending any litigation against ACC or its subsidiaries challenging the Merger Agreement or the consummation of the related transactions; (iii) obtaining all consents from governmental authorities required for the transactions; and (iv) timely filing of all necessary documents under the HSR Act.

Other Covenants

Additionally, ACC covenanted and agreed, among other things, to (i) give TCG, its lenders and their respective authorized representatives access to all offices, other facilities, contracts, books and records of or pertaining to ACC; (ii) take all steps necessary to duly call, give notice of, convene and hold a special meeting of its stockholders for the purpose of approving the transactions contemplated by the Merger Agreement, and the Board of Directors of ACC covenanted and agreed to recommend that the stockholders approve the proposals and to use its commercially reasonable efforts to obtain any necessary approval by ACC's stockholders of the proposals; (iii) refrain from issuing or causing the publication of any press release or announcement with respect to the Merger or the related transactions without the consent of TCG, except where such release or announcement is required by law; (iv) use commercially reasonable efforts to ensure that each person who is or may be an "affiliate" of ACC within the meaning of Rule 145 promulgated under the 1933 Act enters into a letter agreement regarding the shares of TCG Class A Common Stock that such "affiliate" receives in the Merger as soon as practicable after the date of the Merger Agreement; and (v) if any antitakeover statute or regulation enacted under state or federal laws in the United States is or may become applicable to the Merger, grant such approvals and take such actions as are necessary so that the transactions contemplated by the Merger Agreement may be consummated as promptly as practicable on the terms contemplated by the Merger Agreement and otherwise act to eliminate or minimize the effects of any such takeover statute.

Certain Covenants of TCG

Employee Matters

TCG has covenanted and agreed that, on and after the Effective Time, employees of ACC and its subsidiaries prior to the Effective Time who are employees of the Surviving Corporation or its subsidiaries will be provided with and permitted to participate in all Employee Plans and Compensation Arrangements (as those terms are defined in the Merger Agreement) provided to similarly situated employees of TCG and/or its subsidiaries, which Employee Plans and Compensation Arrangements may, in TCG's sole discretion, include Employee Plans and Compensation Arrangements of ACC, and the vesting of all outstanding ACC options and warrants or arrangements to acquire capital stock of ACC and all ACC SIRs shall accelerate immediately upon the Effective Time.

Commercially Reasonable Efforts

TCG covenanted and agreed to use its commercially reasonable efforts to take, or cause to be taken, all actions and do or cause to be done, all things necessary to consummate the Merger and the transactions contemplated by the Merger Agreement, including, but not limited to, (i) obtaining all required consents from governmental authorities, (ii) timely filing all necessary documents under the HSR Act and (iii) causing the shares of TCG Class A Common Stock comprising the Merger Consideration to be approved for listing on Nasdaq as promptly as practicable.

TCG is not required to agree to anything that would (i) prohibit or limit the ownership or operation by TCG or any of its subsidiaries or affiliates of any material portion of the business or assets of TCG or of such subsidiaries or affiliates, or compel TCG or any of its subsidiaries or affiliates to dispose of or hold separate any such material portion, (ii) impose limitations on TCG's ability to acquire or hold, or exercise full rights of ownership of, any shares of capital stock, including, without limitation, the right to vote any capital stock on all matters properly presented to stockholders, (iii) prohibit TCG or its subsidiaries or affiliates from effectively controlling the business or operations of TCG or (iv) otherwise materially adversely affect TCG or any of its subsidiaries or affiliates.

Other Covenants

Additionally, TCG covenanted and agreed, among other things, to (i) give ACC, its lenders and their respective authorized representatives access to all offices, other facilities, contracts, books and records of or pertaining to TCG; (ii) refrain from issuing or causing the publication of any press release or announcement with respect to the Merger or the related transactions without the consent of ACC, except where such release or announcement is required by law; and (iii) refrain from declaring, paying or setting aside any dividend or other distribution in respect of its equity securities or redeeming, purchasing or otherwise acquiring or offering to acquire any shares of its equity securities, other than such action which would result in an adjustment to the Merger Consideration or any such action pursuant to an employment agreement, employee plan or compensation arrangement.

Conditions to Merger

Conditions to Each Party's Obligations

The respective obligations of each party to effect the Merger shall be subject to the fulfillment or waiver at or prior to the Effective Time of the following conditions: (i) the ACC stockholders must have approved the Merger and related transactions at or prior to the Effective Time; (ii) no order, judgment, injunction or action shall have been enacted by any governmental authority which prohibits or prevents the consummation of the Merger; (iii) any waiting period applicable to the Merger under the HSR Act shall have expired or earlier termination thereof shall have been granted and no action, suit, proceeding or investigation shall be pending by either the United States Department of Justice or the Federal Trade Commission to prevent the consummation of the transactions contemplated by the Merger Agreement (this condition has been satisfied); (iv) the Registration Statement, of which this Proxy Statement/Prospectus is a part, shall have been declared effective, no stop order suspending the effectiveness of the Registration Statement shall have been issued and no action, suit, proceeding or investigation for that purpose shall have been initiated or threatened by any governmental authority; and (v) the shares of TCG Class A Common Stock comprising the Merger Consideration shall have been approved for listing on Nasdaq.

Conditions to Obligations of ACC

The obligations of ACC to effect the Merger shall be subject to the fulfillment at or prior to the Effective Time of the following additional conditions, any one or more of which may be waived by ACC: (i) the representations and warranties of TCG contained in the Merger Agreement that are modified by materiality or TCG Material Adverse Effect (as defined in the Merger Agreement) shall be true and correct and those that are not so modified shall be true and correct in all material respects, on the date of the Merger Agreement and as of the Effective Time as if made at the Effective Time; (ii) TCG shall have performed and complied with all of its covenants and agreements in all material respects and satisfied in all material respects all of the conditions required to be performed or complied with by it; and (iii) ACC shall have received an opinion from ACC's tax counsel that, for federal income tax purposes, the Merger will qualify as a reorganization within the meaning of Section 368(a) of the Code.

Conditions to Obligations of TCG

The obligations of TCG to effect the Merger shall be subject to the fulfillment at or prior to the Effective Time of the following additional conditions, any one or more of which may be waived by TCG: (i) the representations and warranties of ACC contained in the Merger Agreement that are modified by materiality or ACC Material Adverse Effect (as defined in the Merger Agreement) shall be true and correct and those that are not so modified shall be true and correct in all material respects, on the date of the Merger Agreement and as of the Effective Time as if made at the Effective Time; (ii) ACC shall have performed and complied with all of its covenants and agreements in all material respects and satisfied in all material respects all of the conditions required to be performed or complied with by it; (iii) TCG shall have received an opinion from TCG's tax counsel that, for federal income tax purposes, the Merger will qualify as a reorganization within the meaning of

Section 368(a) of the Code; (iv) all governmental consents required for the consummation of the Merger and the related transactions shall have been obtained by final order, except as may be waived by TCG or those consents the failure of which to be obtained will not materially adversely affect the business, assets, financial condition, liabilities or the results of operations of the Surviving Corporation and its subsidiaries taken as a whole (this condition has been satisfied); and (v) TCG shall have received the opinion of special telecommunications counsel to ACC, in form and substance reasonably satisfactory to TCG and customary for similar transactions in such jurisdictions, covering regulatory matters in the Federal Republic of Germany, the United Kingdom, Canada, Massachusetts, New York, the United States and any other national or state jurisdiction in which ACC owns, leases or operates one or more telecommunications switching devices.

Indemnification

The indemnification provisions of the By-laws and the Certificate of Incorporation of the Surviving Corporation shall not be amended or repealed for six years after the Closing Date in any manner that would adversely affect the rights thereunder of individuals who immediately prior to the Closing Date were directors, officers, agents or employees of ACC unless otherwise required by applicable law. From and after the Effective Time, TCG and the Surviving Corporation shall jointly and severally indemnify, defend and hold harmless the directors, officers and agents of ACC as provided in ACC's Certificate of Incorporation, By-laws or indemnification agreements, as in effect as of the date of the Merger Agreement, with respect to matters occurring through the Closing Date.

To the extent available, TCG agrees to cause the Surviving Corporation to maintain in effect for not less than three years after the Closing Date policies of directors' and officers' liability insurance comparable to those maintained by ACC with carriers comparable to ACC's existing carriers and containing terms and conditions which are no less advantageous in any material respect to the officers, directors and employees of ACC.

Termination; Termination Fees and Expenses

The Merger Agreement may be terminated at any time prior to the Effective Time, whether before or after approval of the stockholders of ACC: (a) by mutual written consent of TCG and ACC; (b) by either TCG or ACC if (i) the Merger is not consummated on or prior to November 26, 1998, provided that such right is not available to any breaching party, (ii) the approval of ACC's stockholders is not obtained at the Special Meeting or (iii) any governmental authority takes any action prohibiting the consummation of the Merger; (c) by TCG, if (i) ACC materially breaches any of its representations, warranties, covenants or other agreements contained in the Merger Agreement, which breach is not cured within 20 days after given written notice thereof to ACC, (ii) ACC breaches its agreement not to solicit any ACC Takeover Proposal and certain related provisions of the Merger Agreement and fails to promptly terminate the activity giving rise to such breach and fails to use commercially reasonable best efforts to cure such breach, (iii) the Board of Directors of ACC withdraws or adversely modifies its approval of the transactions contemplated by the Merger Agreement or approves any ACC Takeover Proposal, or (iv) any person other than TCG or any of its affiliates acquires beneficial ownership, or any "group" is formed which beneficially owns 10% or more of the voting power of ACC; or (d) by ACC, if (i) TCG materially breaches any of its representations, warranties, covenants or other agreements contained in the Merger Agreement, which breach is not cured within 20 days after giving written notice thereof to ACC, or (ii) prior to the time of the Special Meeting, in accordance with the provisions of the Merger Agreement described under "—Acquisition Proposals."

ACC shall pay to TCG a termination fee of \$32.5 million plus expenses of up to \$7.5 million if the Merger Agreement is terminated under any of the following circumstances:

- (i) TCG terminates the Merger Agreement as a result of the Board of Directors of ACC having withdrawn or modified in a manner adverse to TCG its approval or recommendation of the Merger or having approved or recommended any ACC Takeover Proposal (as that term is defined in the Merger Agreement), in which case the fee shall be payable on the business day following termination of the Merger Agreement;